CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes
February 12, 2009

1. Call to Order

Meeting chaired by Honea and called to order at 8:35 a.m. on February 12, 2009. Minutes taken by Williams.

Attendance

Members	Representation	Present	Absent
Evelyn Honea	Chairperson	X	
Beau Barrett	Citizen		X
David Carter	Fire		X
Jim Edwards	Police	X	
Steve Fenner	Citizen	X	
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Ken Homan	Citizen	X	
Sheila Maerz	Human Resources	X	
Mary Mannix Decker	Finance	X	
Jim McCulloch	Police	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Linda Williams (NV)	Interim Secretary	X	

NV = Non-voting

2. Approval of Minutes – January 8, 2009

Honea stated that the open and closed meeting minutes from the January 8, 2009 meeting required the Board's approval. She asked for changes to the minutes. No changes were noted.

Honea asked for a motion to approve the January 8, 2009 meeting minutes as presented. Motion by Mannix Decker, 2nd by Fenner. Vote all: Yes.

3. Approval of Financial Statements Ending December 31, 2008

Honea asked Mannix Decker to report on financial statements.

Mannix Decker stated that Mr. Reina from Segal was present to review the quarterly performance and that she would just highlight a few items from the monthly financial reports ending December 31, 2008.

Mannix Decker stated that the pension fund did see some recovery in the assets in December 2008. The balance sheet reflected approximately $500,000 in cash. On the investment side, Brandywine was at $14.1 million, up about $711,000 from the prior month. Galliard reported at $25 million, up about $640,000. Pictet saw some nice recovery with a $966,000 increase. Prudential there was a valuation of property resulting in a $1.8 million dollar loss. State Street Global account was up $603,000.

With accrued interest, total current assets are at approximately $99.5 million. There was $13,000 of outstanding accounts payable, bringing net assets to $99,515,776. Mannix Decker stated that she added that there were two payrolls in the month of December so the fund realized the customary contributions. There was a small amount of other revenue resulting in net investment income of $1.1 million. The fund paid out $2,800 in fees. Total additions to the plan of $2.3 million and with benefit payouts and return of contributions totaling $ 1.3 million, there was a net increase in plan assets of just over $1 million for the month, slightly over 1%. Administrative expenses were higher than normal due to legal expenses, as discussed at the January 2009 meeting, as well as the actuary study performed by Milliman.

Honea asked for a motion to approve financials as presented. Motion made by Maerz, 2nd by Hall. Vote all: Yes.

4. Review of Retirement Applications

Randy Lasater	Age & Service	Eligible: 03/21/09

Motion made by Hall, 2nd by Edwards. Vote all: Yes.

5. Review of Surviving Spouse Application

Avron Jackson	Fire

Motion made by Maerz, 2nd by Hall. Vote all: Yes.

Review of Relinquishment Applications

Dean Ratcliff	Police
Lauren Keeling	Police

Motion by Mannix Decker; 2nd by Hall. Vote all: Yes.

6. Approval of Return of Contributions

Tim Robertson	Fire	Age & Service	$ 78,116.42
Eddie Delp	Fire	Age & Service	$ 84,329.59
Danny Schrader	Police	Age & Service	$ 65,774.58
Lauren Keeling	Police	Relinquishment	$ 891.11
Dean Ratcliff	Police	Relinquishment	$ 597.83
Total:			$229,709.53

Motion by Hoffman, 2nd by Hall. Vote all: Yes.

7. Approval of Retirement Calculations

Danny Schrader	Police	$5,549.13 (monthly pension)	$2,685.06 (partial)	Retired: 01/17/2009

Motion by McCulloch, 2nd by Edwards. Vote all: Yes.

Eddie Delp	Fire	$2,994.15 (monthly pension)	$2,994.14 (partial-16 days)	Retired: 01/16/2009

Motion by Fenner; 2nd by Homan. Vote all: Yes.

Joseph Motte	Police (Early Retirement)	$1,186.28 -$355.88 (penalty) $830.40 (adjusted monthly pension)	$771.08 (partial – 26 days)	Retired: 11/7/08

Motion by Hall; 2nd by Hoffman. Vote all: Yes.

Tim Robertson	Fire	$2,750.47 (monthly pension)	$1,508.32 (partial-17 days)	Retired: 01/15/09

Motion by Mannix Decker; 2nd by Hall. Vote all: Yes.

Honea stated that the closed session would be postponed so that Mr. Reina could address the Board at this time and review highlights of the investment performance through December 31, 2008.

9b. New Business – Rebalancing of Investment Portfolio and
9c. New Business - Real Estate Investment

Mr. Reina distributed a handout entitled "*Analysis of Investment Performance Through December 31, 2008*" to all Board members present.

Mr. Reina reviewed highlights on a total plan basis, in addition, reviewed the macro-economic environment overview for 2008.

- Equity Index Returns for all equity markets (domestic, international, value, growth, large, small) - the S&P 500 for the year was down 37%. Ten-year number of -1.4%, worst decade since 1930's.
- Small cap stocks were down for the year at 33.8%, little bit better than large cap stocks. Growth vs. value dynamic growth trailed value on small cap side.
- International did worse than domestic, down 43%.
- Emerging markets, the most aggressive part of equity market, was down 53% for the year and from its peak in 2007, down 70%.
- GDP came out at end of January at a -3.8%, that is the worst quarter of GDP numbers since 1982. GDP for the first quarter of 2009 seems to be similar in number.
- Inflation is non-existent. CPI for year-over-year was at a -.1%, not seen a negative change in prices since 1955 year-over-year.
- The Fed funds rate is at 0%. The Fed was very active during the 4th quarter. When they started the quarter they were at 2%, lowering it three times, now it is basically at 0.
- Unemployment in 2008, the rate was 7.2%, looking at January number it is 7.6% and 2008 on a nation-wide basis, 2.6 million jobs were shed. Unemployment numbers are similar around the world (U.S., Europe, and Asia).
- Fixed income returns for the quarter, benchmarks performed pretty well. Barclay's Capital Government was up 12.5%, pushing the year-to-date to 5.2%. That positive return was driven by U.S. treasuries. The 30-year treasury at the end of December was as low as 2.6% and it has never been that low before.
- Mortgage rates by the end of December were below 5%.
- Barclay's Capital Credit, the investment grade portion of benchmark, was only up 4% vs. 4.6%.
- High yield (which is not in the pension fund's portfolio) are the riskiest of the bond market were down 17.6%, down 26% for the year.
- Globally, Citigroup Non-U.S. WGBI (unhedged) was at 8.8% indicating that yields around the world came down.
- Hedge fund to fund (again, not in pension fund's portfolio) was down 10%; 12% through September 30, 2008. For the year, hedge fund to fund for 2008 were down almost 20%.
- The NCREIF was down 7% for the year. The 2008 calendar year was the worst year for commercial real estate since NCRIEF has been calculated in 1978. Have not seen a negative in real estate since 1991-1992.

Other points of interest noted by Mr. Reina:

- Personal saving rate – since 1982 individuals have saved, on average, 12% of income. That has declined steadily until more recently 2004-2005, down to -2%

fueled by home equity and credit debit in general. In last three months it has jumped to +7%.

- Housing market – seemed to have reached a plateau as it relates to housing starts. Essentially, there are no new homes being built right now, at an annualized rate of 150,000 homes per year. Lowest number in 45 years.
- Housing supplies perspective – at almost 13 months of inventory which is an all time high over the last 50 years. This is not a new trend. There has been talk about the declining home prices for the last 29 months. Housing correction started a lot earlier than the stock market and bond market corrections.

Discussion was held amongst Board members and Mr. Reina. Homan mentioned that a portfolio that is 60% stocks/40% bonds, the experience must be viewed from a longer-term perspective when people inquire as to why the Board is investing aggressively. The Board is not investing aggressively unless it is viewed from the shorter-term perspective, but he stated that this is a pension fund that goes on for years so the time horizon is longer. It is a very simple explanation, but one that has not gotten absorbed by the public. Mr. Reina agreed that the long-term perspective is appreciated.

Mr. Reina added that high yield bonds, the most aggressive part of the bond market, was at +6%, that is a 14% difference in 30 days. Hall stated that this seems to be related to the credit market and asked for Segal's perspective on this. Mr. Reina stated that the capital is there to be lent, the cash is sitting there, it has not moved. The concern is that the banks do not trust each other and the toxic assets are still an unknown number. He added that it is not known how bad the balance sheets of these major financial institutions actually are until they come out with the number or the actual securities and what they are valued at. He does not know what the catalyst will be to get things moving.

Mr. Reina moved to the Composite – Total Fund 3/2005 Through 12/2008 (page 8) and reviewed some highlights.

- For the quarter the total plan returned at -14.6%, the policy index is -12.3%. Fiscal year-to-date for the six-month period, -22.3% vs. -19.7%. For the one year, -27% vs. -24% and did offer perspective for the 2008 numbers:
  - Most plans that Segal works with (150 clients), the -27% is in the middle somewhere. He pointed out that this plan did not have hedge fund to fund exposure. A lot of pension plans substituted some of their fixed income with hedge fund to fund. Hedge fund to fund as a whole is at -20% for the year, so the pension plan avoided that.
  - On the fixed income side, with the exception of Pipco, all the largest fixed income managers around the world had the worst performance. To show the bond performance for this plan, there is a group of core fixed income managers investing in just investment grade bonds that went down 30% for the year vs. the benchmark that was up 5.

- Portable Alpha, which about 3 years ago was a big to-do, was a way to gain leveraged exposure to any index where one would get the index exposure to capital aggregate, S&P 500. This money would be invested into hedge fund to fund. Most of these portable alpha products were over 10% behind the S&P on average, down about 50% because the leverage component. This was also something that this pension fund did not have.

Mr. Reina stated that he raised these points because he wanted to put the -27% into perspective for the Board because it is not really out of line with what other plans are doing. Homan stated that he thought, as the Board moves forward, that these points will be important and requested that they be reduced to writing for the Board's use.

Mr. Reina moved to the Composite – Bond Segment (page 11):

- Bond segment for the one year was at a -3% vs. +5%, that -3% to put into perspective, the Wamco's Morgan Stanley, J.P. Morgan, were down closer to 30% with just investment grade bonds.

Homan stated that when speaking in reference to Galliard and shifting, there was talk about adding a separate allocation for the high yield and the Board passed on that. Galliard had the ability to put some high yield in the portfolio and asked Mr. Reina how much that was. Mr. Reina stated that he did not have an idea at this point, but stated he would look into that and report to the Board, but that it was very small and this plan dodged that bullet.

Mr. Reina said that for the next meeting Segal is going to re-run the asset allocation study because it has been about 2 years and with the dramatic nature of 2008, they believe it is time to re-run the study. Segal has almost completed revising its assumptions for 2009. They are going to rerun those numbers with the current asset allocations and add in what high yield would do to the asset allocation. The first study was run in 2006 or beginning of 2007, high yield spreads above treasuries were about 5%, so the risk-reward relationship was much different relative to stocks. Now it is 15%, it was as high as 22% in December, it has already come down. Mr. Reina stated that for fiscal year 2008, the fund did 4-1/2% better with its active managers and allocations vs. the old allocations and managers which is a positive thing.

Homan asked if there was more underperformance for active managers than normal. Mr. Reina said there was more underperformance, on average 3-4%, on the small cap side. Biggest detriment to small cap manager's performance was the overweight in energy and materials. Homan asked about the experience with the active managers on large cap with growth, value and core. Mr. Reina said they are probably a little ahead; the only reason is because underweighting the large banks for 2008. They outperformed the benchmarks on the small cap side with regional banks. It was hit or miss, you either got it really right or you missed.

Rushefsky asked about the timeframe for reevaluating the portfolio. Mr. Reina said they use a full-market cycle and like to see a strong up and down market and put that together to see how they perform on both sides. Unfortunately, most of the pension fund's managers, during the length of time the fund has had them, has been only one direction, down, so hopefully over a three-year period, within the next 1-1/2 years to 2 years, Segal will get a pretty good idea. If it is downward for the next 3 years, he would say still a full-market cycle, but from an organization perspective, they are all still stable.

Mr. Reina mentioned with regard to State Street, they have been on the news in January relating to the stability of the organization because as a whole their stock price dropped 60% in one day and there were comments about their balance sheets. He reported that this was overblown, their assets are safe, and ones who should be concerned are the shareholders of State Street, not the clients. Segal did review this and assured the Board it was fine on that regard.

Mr. Reina mentioned one follow-up item from the January call was regarding the portfolio rebalancing. Mr. Reina distributed a memo dated January 27, 2009 regarding 2009 Portfolio Rebalancing. The figures reflected in the memo are using a 12/31 market value.

He reported that the domestic and international equity allocations were both 5% below target, while the domestic and international bond allocations were 3% above target. Real Estate allocation was 4% above target. He stated that what was discussed during the January 16 conference call was that over a six-month period, slowly moving back to the target asset allocation.

From a dollar perspective what is seen is the liquidation of the Galliard and Brandywine portfolios, which are overweight, adding to the SSgA and Pictet portfolios which are underweight. The numbers come out to $600,000 per month from Galliard, $585,000 per month from Brandywine and adding $650,000 per month to SSgA and $530,000 per month to Pictet. During the six-month period if the equity markets go up, the plan may be rebalanced sooner than they thought. The one thing that is being heard from managers as a whole is that there is no rush. Slow and methodical is the theme for 2009.

Homan asked if Mr. Reina would come back in a month and say the fund would need to shift to bonds. Mr. Reina said that was a fair question and suggested that Board members hold the memo and discuss this at the March 2009 meeting. If that is the case, Segal will prepare new numbers. Homan asked if Mr. Reina had a pretty good idea as to what Segal would be recommending one month from now. Mr. Reina said that he had a "sense" that the high yield bonds will add great diversification and probably allocation would be warranted and funds would probably come from equities in terms of where you are going to fund that allocation. Mannix Decker added that if could wait for another month she could prepare a cash flow projection of the fund and that can be taken into account as well.

Honea stated that Mr. Reina had reviewed the asset allocation to see how it should be broken up for the 7-1/2% and knows that this will be a year when the Board will review its experience. She inquired as to whether Segal will still target the 7-1/2% or is the Board moving into an era where the 7-1/2% is an unrealistic assumption. Mr. Reina stated that Segal still believes the 7-1/2% is realistic and stated that of course, the actuary will have their opinion on this a well. Honea asked if that is where Segal will set its target when preparing the asset allocation. Mr. Reina stated absolutely. Hall asked over what time horizon this will be completed. Mr. Reina stated their forecast is 10 years. The actuary's, as an industry, is closer to 20 years. Asset assumptions are wide-ranging. Goldman Sachs says U.S. stocks are going to 6.5% per year for the next 10 years. J.P. Morgan has 11% per year for the next 10 years. That is a pretty large spread.

In summary, Mr. Reina reviewed the items to be completed:

- Run the asset allocation study and discuss at the March 2009 meeting.
- Mannix Decker will provide the cash flow projections.
- Reduce to writing, Mr. Reina's comments about putting the -27% into perspective to other plans and what are some of the other pitfalls that were avoided that other plans did not experience.

Honea asked for a motion to table the item until the March 2009 meeting. A motion was made to not rebalance the portfolio until a recommendation is received from Segal on possible reallocations. Motion by Homan, 2nd by Maerz. Vote all: Yes.

Mr. Reina stated that he would be available during the Board's March 2009 meeting via telephone conference call.

Mr. Reina mentioned one additional follow up item from last week and that was related to PRISA conversation from last week. He mentioned that no article had been published in the February 4, 2009 edition of the Wall Street Journal, or in the February 11, 2009 edition (either on-line or hard copy).

Homan indicated that a representative from the Wall Street Journal, Anton, had called him on February 11, 2009 and indicated that he expected the article to be published the week of February 16, 2009. Honea added that this person had spoke to her on February 11, 2009 and informed her that he would notify her as to when the article was going to run.

Honea mentioned that the person had requested permission to speak to Mr. Reina and was denied that request. Honea then reviewed the events relating to the forward commitments for the PRISA fund to the present with regard to the Wall Street Journal. Hall briefly reviewed what a forward commitment is and how it works. Honea continued and stated that a investment subcommittee has been formed consisting of David Hall, Ron Hoffman, Mary Mannix Decker, Ken Homan and herself and they are meeting with Mr. Reina. Honea stated that this item is something that will be watched closely and that the subcommittee will be working closely with Mr. Reina, via conference calls each month, to stay abreast of the situation.

Board members held additional discussion.

It was decided that Rushefsky will draft a brief overview of the PRISA issue to keep Council informed. The draft will be sent to Mannix Decker, Hall, and Homan. After input has been received from them and she incorporates any comments received, she will forward the draft to Honea and Louise Whall, Director of Public Information, to review prior to releasing to Council. Mannix Decker stated that it will need to go out Monday because the Wall Street Journal is released on Wednesday.

Honea thanked Mr. Reina for attending the meeting and Mr. Reina exited the meeting at 10:12 a.m.

Mannix Decker exited the meeting at 10:12 a.m.

Honea asked for the Board to take a 15-minute break. Meeting reconvened at 10:17 a.m.

Rushefsky requested that a Board member be available to provide a five-minute financial update at each Council lunch on a regular basis -- every quarter or every six months, whatever is appropriate. Rushefsky thought Mannix Decker would be the appropriate person to provide the updates. Honea suggested that this update be provided by Mannix Decker during the Council luncheon that falls on the Tuesday following receipt of the quarterly report from Segal.

9a. New Business - Nurse Consultant

Honea turned the floor over to Maerz to address the Nurse Consultant process. Honea noted that Maerz provided a summary of the proposals and costs for Board members to review prior to the meeting. It was the charge of the Board to select the one of the three finalists for the Board's position of Nurse Consultant.

Maerz reviewed the costs and summary of proposals with Board members as contained in her February 2, 2009 memo. Board held discussion.

Honea asked for a motion to accept the recommendation and hire HSI on an hourly rate. Motion by Hall; 2nd by Edwards. Vote all: Yes.

Maerz stated that she would notify HSI of the selection and begin preparing the contract.

Dan Wichmer entered the meeting at 10:25 a.m.

9d. Disability Appeals Ordinance Change

Honea asked for an update from Wichmer. Wichmer indicated the council bill is ready to go and needed to see if there were any additional items to be added. The Board discussed this item. Hall recommended moving forward with the ordinance. Wichmer stated that the council bill will go to Council the first meeting in March. Maerz asked Wichmer to send out the council bill electronically to all Board members to refresh their memory as to its content. Wichmer stated he would do so as soon as computer files were made available to him.

9e. Discussion of Safeguards for the Plan

Honea asked if there was any further discussion related to this item. Hall stated that there is a need for a lot more discussion regarding this topic, but was waiting until after the election to proceed. Honea stated that Hall is chairing the subcommittee so he will proceed accordingly.

Rushefsky recommended that the discussions take place before going back to the citizens for another vote as there needs to be strong, secure plan before going back to public. Discussion was held amongst Board members regarding items tied into the ordinance such as making Rushefsky's position a mandatory position on the Board, the annual report to Council, the City Manager position as Chair of the Board, and concerns related to the City making the actuarial recommended contribution. Wichmer stated that what he would recommend, as a legal advisor, that the Board draw up an ordinance making the change of the word from "may" to "shall" related to the funding portion and that the item related to the City making its actuarial recommended contribution be sent to the Finance Committee. Wichmer will prepare the draft ordinance and distribute. This item will be addressed at the March 2009 meeting.

9f. Secretary Position

Honea stated changes have been made to the job description for the Secretary to the Board position that has been posted. Item numbers 8, 12 and 13 on the job description were either added or amended. There were other very minor changes and/or updates. The job was posted by the Human Resources Department and the position will close on Friday, February 13, 2009. Maerz reported that she has a staff member who will screen all applications. There is a subcommittee who will conduct preliminary interviews. The subcommittee is comprised of Maerz, Carter and McCulloch. The top three finalists will be presented to the full Board for final interviews.

8. Legal Matters – Closed Session, pursuant to Section (1), RSMo.

Honea stated she would entertain a motion was made to move to closed session. Motion by Hall, 2nd by Hoffman, Vote all: Yes.

Closed open session at 10:43 a.m.

Board completed closed session at 10:51 a.m.

10. Any and all other matters which fall within the jurisdiction of this Board -

Honea asked for a motion to continue with the open session of the February 12, 2009 meeting. Motion by Maerz, 2nd by Hall to reopen the February 12, 2009 meeting. The open session continued at 10:51 a.m.

Rushefsky asked when the remaining investment managers would be scheduled to present to the full Board given they could not attend the special meeting on January 27, 2009 due to inclement weather. Honea said she will speak with Mannix Decker to get them rescheduled.

Edwards had inquired about the MAPERS conference. Edwards suggested having the special session for investment manager presentation the 3rd week in July or after the MAPERS conference, which is held the 2nd week of each July. Wichmer inquired as to the Board will cover his expenses to attend the training. Rushefsky said if it was required by the Board for him to attend, then the Board would cover his expenses. Honea asked Williams to contact Mannix Decker to request that she locate and provide information to the Board at its March 2009 meeting regarding the MAPERS conference.

Hall mentioned that the Fire District Association is developing an on-line trustee training that is required for fire districts and school districts. Hall said that he will be working with this person to perhaps incorporate specific training related to pension funds so that Board members could go on-line to take trustee training.

Honea mentioned that the transcripts of Board meetings, as requested be created by the Board, were very extensive and she reported that instead of reviewing the transcriptions word-by-word, she would be returning them to the Board, in draft form, without being thoroughly proofed due to time constraints. Honea stated that she will continue to thoroughly proof closed meeting minutes, but would ask that Board members review the open minutes transcriptions and bring any corrections to the next meeting. Hall suggested moving to an abbreviated version of minutes and archiving the recordings of meetings. Board discussed this item and decided that as of February 12, 2009, the open session minutes will be prepared in a very brief, summarized version and recordings will be retained on file.

Edwards inquired about Annual Employee Pension Statements. Honea indicated that since Mannix Decker had left the meeting he would need to ask Mannix Decker about this at the March 2009 meeting if the statements have not been released by that date.

10. Adjournment

Motion by Hall, 2nd by Maerz to adjourn at 10:58 a.m. on February 12, 2009. Vote all Yes. Meeting adjourned.

 Interim Secretary Signature: Linda Williams